



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., September 24, 2002. The following members were present:

Jody B. Olson
Dennis L. Johnson
Susan K. Simmons

Trustees J. Kirk Sullivan and Pamela I. Ahrens were absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bill Palumbo
Drew Black
Casey Maslonka
Brian McGrath
David Boren
Dona Van Trease
Vicki Patterson
Darin Rissinger
Matt Freeman
Robert Schmidt
Karen Steffen

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co
DB Fitzpatrick & Co
Clearwater Advisors
IPEA
IPEA
Boise School District
LSO-BPA
Milliman USA
Milliman USA

James Coleman	PERC – R.T.
Charlie Brown	REAI
Tom Robb	REAI
Vicki Reynolds	IASA
Mike Friend	IASA
Jane Buser	PERC & Boise State University
Richelle Sugiyama	PERSI
Judy Aitken	PERSI
John R. Doner	PERSI
Susan Shaw	PERSI
Gay Lynn Bath	PERSI

EXECUTIVE SESSION: Noting that Idaho Code 67-2345(1)(b) provides for an executive session to discuss personnel issues, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board convened in executive session at 8:35 a.m. At 9:00 a.m. they reconvened in open session. Chairman Olson told those present that during the executive session, the Board had conducted the annual performance review of Portfolio staff. The Board recognizes the expertise of Chief Investment Officer Robert Maynard as world-class quality, realizes he is one of the higher compensated state employees and believes he should be. Other Idaho agencies, such as the Endowment Fund, also recognize his competence and have asked his assistance while they search out long-term management for their fund. The Chairman noted that while PERSI returns are not those we had hoped for, with Mr. Maynard's skillful management, relative returns are above what they would have been. However, because of the political situation facing Idaho government, the Board is deferring the discussion of a bonus or salary increase for portfolio staff.

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Simmons and seconded by Trustee Johnson, the Board unanimously approved the minutes of the August 27, 2002, regular meeting of the Retirement Board as submitted.

PORTFOLIO

Monthly Portfolio Update Mr. Maynard discussed his investment report dated September 24 2002, which he had updated from the one previously furnished to the Board. In the report, Mr. Maynard noted the following:

The market since the last Board meeting has deteriorated, and the fund is down 3.4% since that point. War worries, worse than expected economic

and earnings reports, and poor overseas performance has been the cause of the deterioration.

PERSI's performance has been either as or better than expected, the TIPS account and Idaho mortgages continue to be the best performers, with Tukman and Lend Lease being the best equity performers (meaning, losing the least amount of money fiscal year to date). This month, Brandes and TCW are having the greatest difficulty.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations.

The portfolio as a whole has reverted to its primarily defensive character that it exhibited late last year. While this has helped in terms of relative performance to expectations, it will also mean that if the market turns around quickly, our relative performance will lag for a while.

Mr. Maynard's report stated the current value of the fund as of September 24, 2002 was \$5,734,112,022. The fiscal year-to-date return percentage is negative 9.2% and the month-to-date return was a negative 5.3%. At the May Investment manager's meeting, most of our managers did not think Japan was the place to invest. Against their predictions, Japan has significantly outperformed in this market and because our managers were not invested heavily there, our returns have been affected. Mr. Maynard reviewed individual manager performance saying the TIPS account has done stunningly well in this market. TIPS purpose in the risk management of the portfolio is for diversification and protection against inflation. 13.5% of our portfolio is currently in this investment vehicle. Because of an overweighting in fixed income, Mr. Maynard plans to take some of the TIPS investment and reallocate it into equities. In response to a question from the Chair, Mr. Maynard said after the rebalancing, about one quarter of the fund will be passively indexed. He continually monitors the total fund checking the effect of strategic policies, what would occur if we did not rebalance to the asset allocation during the year, and what would occur if we exactly balanced to the asset allocation every month. A summary of that information is provided monthly to the Board in the Portfolio Status Report.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. The managers

agreed that the recovery is extremely slow and said corporate executives seem pessimistic in their future earnings predictions. As corporations cut back on their labor and capital expenses in order to meet earning projections, collectively it will have a constricting effect on economic activity.

Drew Black of DB Fitzpatrick said there is not a lot of construction going on in Idaho, not a lot of tenants moving in because of the economy. Economist Brian McGrath still thinks we are on track to a moderate recovery.

LEGAL:

Adopt Choice Plan Amendment: Trustees had previously received copies of suggested amendments to the PERSI 401(k) plan. Deputy Attorney General Goodsell reviewed the memo that said, in part:

Increased portability of benefits resulting from the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has resulted in several requests from inactive members to consolidate their retirement resources into the PERSI Choice Plan. Some members have accounts with other former employer plans, some have IRAs or other individual plans that they would like to eliminate by rolling those funds into the Choice Plan.

Prior to this amendment, only active members (those eligible to contribute to the plan) were able to rollover distributions from other plans. This amendment will allow both active, and inactive members who still maintain an account, to roll eligible rollover distributions into the PERSI 401(k) Plan. This change does not add costs to the plan or to the participant because inactive members who maintain accounts in the PERSI 401(k) Plan already pay their own fees.

By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted the proposed amendments to the 401(k) plan effective October 1, 2002.

Expand Hearing Officer Register: Deputy Attorney General Goodsell had expected to ask the Board to approve the expansion of the hearing officer registry because of increased disability retirement applications and denials. However, because qualified candidates are still being contacted, the matter was deferred until the October Board meeting. Chairman Olson asked to see a list of the candidates before the next meeting; Mr. Goodsell will provide it.

Appoint Hearing Officer – Disability Appeal: Following the staff recommendation from a September 18, 2002 memorandum, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board authorized the executive director to appoint hearing officers to conduct contested case hearings and to issue recommended decisions in the following matters: Roy Applewhite, Case No. CC02-02; Alvin Wayne Petty, Case No. CC02-03; James Pfost, Case No. CC02-04; and Linda L. Erickson, Case No. CC 02-05.

FISCAL

Expense Reports: Financial Officer James Monroe reviewed the Administrative and Portfolio expense reports for the month ended August 30, 2002, which had previously been furnished to the Board. In response to a question from the Chair, Mr. Monroe said expenditures are in line with the current budget related administrative policies. There have been no compensation changes and we are watching expenditures very closely, saving where we can.

EXECUTIVE DIRECTOR

Preliminary Actuarial Valuation – Actuaries Karen Steffen and Robert Schmidt of Milliman, USA discussed the charts and tables that had previously been furnished to the Board. Ms. Steffen noted that no benefits are in danger as the cash flow continues to pay the benefits. She said there was a gain to the fund because of the more accurate data provided by the Galena membership system regarding inactive members. Factoring in the statutory 1% cost-of-living adjustment, the funded ratio is 85%, which translates to a 39.1 year amortization period. The CPI is 1.8%. Ms. Steffen estimated an additional \$21 million cost if the Board chooses to fund the additional .8% discretionary COLA for retirees. Discussing recommended contribution rates, Ms. Steffen said a total of 16.63% of salary effective January 1, 2004 is necessary to bring the projected amortization to the statutory requirement of 25 years. The Trustees expect to make the decision on the contribution rates at their November 26 meeting.

Open Mike – Constituents Discuss Rate Increase. Chairman Olson invited PERSI constituent groups to address the Board with their concerns regarding the timing of the necessary contribution rate increase. Jane Buser, representing the Public Employee Retirement Coalition (PERC) and Boise State University, told the Board that they recognize that raising rates is necessary. She said PERC supports granting the full discretionary COLA to the retirees to maintain their buying power. The Coalition also urged the use of the optional grace periods in statute, which allow the Board to defer any rate increase until July 2004. Employee morale is quite low. Take home pay for employees is less because health costs are rising and no salary

increases are being awarded. Ms. Buser also noted that unless the rate increase is deferred, 40 new legislators who are dealing with a huge state deficit will be asked to increase contributions for state employees in the budgets. PERC feels that facing this in their second annual legislative session would be more palatable and allow time to educate the new legislators on this issue.

Chairman Olson asked if the cities and counties were positioned better financially to handle the increase. Mr. Winkle said it appears they are because they have property tax revenues. He has spoken at annual conventions of both the Association of Idaho Counties and the Idaho Association of Cities. In response to a question from the Chair, Mr. Winkle said it appears that counties and cities are planning to grant salary increases.

Retiree representative Jim Coleman said that PERC has empathy for state employees and realizes the state is experiencing a severe budget crunch. However, PERC believes the full discretionary COLA is important to the retirees. He said over the last five years there has been a 2% reduction in the rates and increasing them to include the full COLA would not be like setting them above their former level. Chairman Olson replied that the Board has never raised rates to pay a COLA and noted that reducing contribution rates does not seem to have the same impact on a member's memory that raising them does.

Discussion of Contribution Rates: This discussion was intermingled with the constituent comments and actuarial report, as Trustees discussed the best method to handle the required contribution rate increase.

COMMUNICATIONS

Introduction of Electronic Board Packet Materials - Communications Officer Becky Reeb introduced contractor Carol Peterson who demonstrated the newly available electronic version of the materials provided each month to the trustees. Phase One of the process has been completed by Management Assistant Joanne Ax and Ms. Peterson. All the materials that the Trustees received in preparation for the meeting were converted to electronic format and were available to staff on an internal network drive. A CD Rom version was also created. Executive Director Winkle used that electronic version during the meeting rather than printed copies of the reports.

Future plans include having all reports from consultants and investment managers provided to PERSI in PDF format. This will reduce the number of print copies and cut both costs and time. Requested copies of reports can be provided in electronic, searchable format. Because all the materials are on PERSI's network drive, they are backed up and taken off site with other data each evening as part of the business resumption plan.

Record retention costs will decrease because microfilming will not be necessary. Ms. Peterson demonstrated how materials can be projected onto the screen during meetings so those attending can reference charts and graphs without depending on hard copies. Providing the information to the Division of Financial Management, The Governor's Office and the Legislative Budget Office on CD ROM rather than in hard copy format will further reduce costs.

Phase Two of the project involves customizing services to Board members who wish to take advantage of electronic packets. Chairman Olson volunteered to be the first trustee to work with staff to learn to access his Board materials electronically.

Status Update: Director Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. The RFP for an independent, third party replication of the actuarial valuation and review of the experience study is expected to be ready for release in about six weeks.

The CEM benchmarking survey data is being gathered. Chairman Olson said the objectives of the report, to provide peer comparisons in non-financial areas, are great. However, the final report does not seem as objective as more numeric reports. Deputy Director John Doner agreed, saying we expect this second year to provide data we can use in conjunction with the member survey data to ensure we are providing the best possible service to our members.

Mr. Winkle said in the coming weeks we will be providing training to staff on how to test Galena system upgrades and changes. Our contract with Watson Wyatt did not provide a good routine testing process and we are learning that this is an essential component to maintaining an electronic data base system. We will have an expert in the field train and assist staff in developing an on-going process.

We will soon release an RFP for a consultant to help us design our member survey. As the questions and the process are developed through the consultant, the Board will see drafts and have an opportunity to discuss the design of the final product.

Mr. Winkle said staff is also in a heavy research mode looking at workflow through the agency. We are studying how our work is done and determining how digital imaging and case management technology fits into the organization. We expect to release an RFP in the next two months for a consultant to help us with workflow process and reorganization.

New Employer:

By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board welcomed Targhee Regional

Public Transit Authority as a new PERSI employer with an effective date of October 1, 2002.

FUTURE BOARD MEETINGS

Discussion of 2003 Board Meeting Dates: Trustees Ahrens and Johnson would not be able to attend a June 17, 2003 Board meeting. Chairman Olson asked staff to explore other dates that might work better for the trustees and staff.

Tuesday, October 22, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, November 26, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, December 17, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:55 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director